MMT Talk at HGSS

1. Disclaimer & Background

I am not an economist. I did study some economics in college but I now work in technology. I discovered MMT about two years ago while researching cryptocurrencies. I had a lot of questions about money: what gives money value? How money is created? Can anyone create money? Etc.

Simultaneously, I became very interested in politics and had big questions about the fiscal and monetary policy responses to the financial crisis.

I ended up finding MMT through Stephanie Kelton's Twitter and became very interested in the topic mostly because I think it's very important for citizens to understand this material. I run a podcast called Pocket Change and also host a monthly MMT Meetup in the city.

We don't have a ton of time here so I am going to go over some very high level points of MMT.

2. MMT is Descriptive, Not Prescriptive

First, let's do a show of hands. How many people here are familiar with MMT?

It seems like there is a lot of confusion regarding what MMT is and what MMT isn't. If you ask 10 different people, you'll probably get 10 different answers. In my mind, at its core, MMT is a *description* of real-world monetary systems. It is not a set of policy proposals.

To paraphrase Professor Bill Mitchell, it seems that a lot of activists are using MMT as a "Christmas tree" of sorts that enables any policy of their choosing. I don't believe this is how MMT should be understood.

As I said, I believe MMT's strength is its objective description of our monetary system. Once you understand the monetary system, where you take your policy choices goes from there. Understanding MMT can enable both conservative or progressive policies.

While the MMT community seems to be overwhelmingly left-leaning, there are both progressive and conservative MMTers. Even MMT academics suggest policies that could be considered conservative according to mainstream politics — like a 0% corporate tax rate, for example.

3. The "Money Story" According to MMT

The conventional "origin of money" story goes something like this: before money, human beings bartered. They traded goats for cattle or wool for honey. This was very difficult because it required a "coincidence of wants" — in other words, each party involved in a trade needed to have something that the other party wanted. Eventually, humans became fed up with this system and invented currency, first metal and then paper. Developing a currency system and moving away from pure barter had plenty of advantages for obvious reasons.

According to MMT, drawing upon scholars like Knapp and Keynes, this is not how "money" came to be. For MMT, the "money story" begins with a governing authority attempting to provision itself. In order to buy goods and services from the private sector, the government levies a tax on a population that is only payable in the currency that the government issues. Suddenly, everyone needs this currency and must sell their goods or services in exchange for this currency in order to satisfy their tax obligations.

In short, “taxes drive money.” The reason why the US dollar is our primary currency is because it is the only currency that can be used to satisfy tax, fine, and fee liabilities that the government imposes on us. The federal government is the currency issuer and we are all currency users.

4. The Federal Budget

Just to lay some basic groundwork, I want to make sure we’re all aware what a federal surplus and deficit are. Very simply, a federal deficit is when the government spends more than it takes in in tax revenue in a given year. A surplus is when the government spends less than it takes in in a given year.

By law, in order to “cover” fiscal deficits, the federal government has to sell bonds when it runs a deficit. So, let’s say the government spends $100 into the economy and only collects $90 in tax revenue. It has to sell $10 in bonds to cover the shortfall.

5. Reserve Accounts & Securities Accounts

When the government sells a bond, what happens? Let’s say I have a bunch of money I’d like to invest and decide to buy the $10 in bonds the government is selling. In reality, what’s happening is my money is shifted from a reserve account into a securities account at the Federal Reserve. This is essentially just a savings account that pays interest. When the interest comes due, my securities account is debited and my reserve account is credited with the principle plus additional interest. These savings accounts AKA treasury bills sit in the economy as financial assets.

Interest rates on treasuries are set by the government, not by the market. They are a policy variable. There is no threat of bond vigilantes. The government creates the money needed to buy the bonds in the first place.

Bonds are sold today due to a holdover from the gold standard. There are primary dealers that are legally required to buy the bonds in the event that no buyers wanted them. This is all a policy choice, not a necessary operation to fund the government.

6. Federal Taxation and Federal Spending are Operationally Independent

Often, whenever a policy is proposed, politicians ask "how we're going to pay for it." This can be true of new spending programs or tax cuts. For example, let's say the federal government wants to spend $1 trillion on an infrastructure program. How will it pay for it?

MMT has the answer and it's pretty simple: Congress approves the spending and the Treasury instructs the Federal Reserve to credit the accounts of the individuals who the government is buying goods and services from. The government spends with a keyboard and taxes with a keyboard. All spending and taxation is simply credits and debits to bank accounts. If you were to pay your taxes in cash, your tax liability is canceled and the cash is destroyed.

Similarly, when the interest on a treasury bill comes due, the government simply credits the bank account of the holder.

Currency issuers like the federal government do not require revenue from debt issuance or taxation in order to spend.

7. Monetary Sovereignty & Fixed vs. Floating Exchange Rates

MMT places a lot of emphasis on monetary sovereignty. The United States is an example of a country that is monetarily sovereign; it issues its own currency. The same is true of Canada, Australia, and the United Kingdom.

This is not true of EU nations as the Euro is issued by the European Central Bank. Similarly, individual US states are not monetarily sovereign. They are currency users, not currency issuers.

Another point of focus for MMT is whether or not a country's currency has a fixed or floating exchange rate. Nixon officially took the United States off the gold standard in 1971 though the gold standard had been suspended a number of times prior to 1971. When a currency is not pegged to a commodity like gold, it alters the playing

field in terms of fiscal policy. A lot of textbook economics and of course Austrian economics treat the US dollar as if it were still pegged to gold.

Unlike the United States, when Greek bonds come due, the Greek government cannot simply credit the accounts of bondholders because it does not issue Euros. Countries like Greece have real solvency constraints.

8. Sectoral Balances

Another key MMT framework that MMT draws upon is Wynn Godley's sectoral balances. This graph shows the US sectoral balances. To quickly summarize, the public sector's financial balance, the private sector's financial balances, and the international sector's financial balance all sum to zero. In other words, the public sector's deficit is the private sector's surplus and vice versa.

In the case of the United States, we run a persistent trade deficit because we buy more goods from the rest of the world than we sell to the rest of the world. Since we run a persistent trade deficit, it's important for the federal government to run a deficit as well in order to maintain the private sector's surplus of financial assets.

A lot of times, people will praise the Clinton Administration's budget surpluses. However, the private sector's savings rates during the Clinton surpluses, fell substantially and led to an increase in private debt, which MMT contends ultimately led to the 2008 financial crisis.

9. What does this all mean?

- The federal government cannot run out of money. It can always buy whatever is for sale in its own currency. It does this by crediting bank accounts.
- The "national debt" is essentially just the private sector's net money supply. It is the sum of safe, liquid financial assets that the federal government has issued since its establishment.

- Even though the federal government does not face a solvency constraint, MMT is not saying "deficits don't matter"
- What MMT is saying is that fiscal policy decisions should be made based on real resource constraints/inflationary pressures rather than dollar costs